

## Message Text

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ACTION COME-00

INFO OCT-01 EA-11 ADP-00 EB-11 CIAE-00 INR-10 NSAE-00

RSC-01 TRSE-00 SS-15 L-03 H-02 NSC-10 PA-03 PRS-01

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PASS COMMERCE

E. O. 11652: N/ A

TAGS: EFIN, JA

SUBJ: LIBERALIZATION OF FOREIGN LIFE INSURANCE OPERATIONS  
IN JAPAN

REF: STATE 111246; TOKYO 6090

SUMMARY: FINATT MET WITH DIRECTOR AND DEPUTY DIRECTOR OF LIFE INSURANCE SECTION, BANKING BUREAU, MOF, TO CLARIFY PRESENT SITUATION REGARDING LIBERALIZATION OF FOREIGN LIFE INSURANCE OPERATIONS IN JAPAN. MOF OFFICIALS HELPFUL IN ANSWERING FINATT QUESTIONS; HOWEVER, THEY REMAINED FIRM IN FEELING THAT MUST CONTINUE WAIT AND SEE ATTITUDE REGARDING " SUCCESS" OF FIRST FOREIGN LIFE INSURANCE COMPANY ( AMERICAN LIFE INSURANCE COMPANY) NOW OPERATING IN JAPAN.

1. FINATT ATTEMPTED TO CLARIFY SEVERAL POINTS. FIRST ASKED FOR DETAILED EXPLANATION OF RESULTS OF INSURANCE COUNCIL RECOMMENDATIONS MADE SEP 71 ( TOKYO 7758, SEP 8, 72). MOF OFFICIAL SAID INSURANCE ADVISORY COUNCIL MERELY RECOMMENDED THAT NO REVISION O LAW WAS NECESSARY FOR MOF TO GRANT PERMISSION TO FOREIGN INSURANCE COMPANIES TO SELL  
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YEN INSURANCE IN JAPAN. OFFICIAL EMPHASIZED THAT NO SPECIFIC COMMITMENT WAS MADE BY MOF INS DIV AT THAT TIME REGARDING ENTRY OF FOREIGN INSURANCE COMPANIES INTO JAPANESE MARKET OR NUMBER OF COMPANIES MIGHT BE ALLOWED IN.

2. REGARDING ASSESSMENT OF AMERICAN LIFE INSURANCE CO OPERATION IN JAPAN, MOF OFFICIAL INDICATED STILL TOO EARLY TO DRAW ANY CONCLUSIONS. APPROVAL WAS GIVEN LAST DEC AND OPERATIONS ONLY BEGAN FEB 73. OFFICIAL SAID MOF NOT PREPARED TO MAKE DECISION REGARDING APPROVAL OF ADDITIONAL FIRMS UNTIL ADEQUATE ASSESSMENT CAN BE MADE OF IMPACT OF ADDITIONAL COMPETITOR ON FINANCIAL SOUNDNESS OF INDUSTRY.

3. MOF OFFICIAL STRESS THAT THERE WERE ONLY LIMITED NUMBER ( APPROX 20) OF JAPANESE LIFE INSURANCE FIRMS OPERATING SINCE END OF WORLD WAR II. DIV DIR MENTIONED DIFFICULT " SUPPLY-DEMAND CONDITIONS" IN INDUSTRY WHICH PROVIDED LITTLE ROOM FOR EXPANSION OF NUMBER OF FIRMS. WHILE CONCEDING FACT THAT JAPAN SECOND ONLY TO U. S. IN AMOUNT OF LIFE INSURANCE OUTSTANDING, CITED MUCH LOWER PER CAPITA INSURANCE IN FORCE AS REASON WHY JAPANESE INDUSTRY WAS WEAK. FOR THIS REASON MOF HAS TAKEN VERY CONSERVATIVE STANCE RE ALLOWING ADDITIONAL COMPANIES TO BEGIN OPERATIONS HERE. HE REITERATED THAT FIRST STEP IN DIRECTION OF LIBERALIZATION WAS TO ALLOW AMERICAN LIFE ( A TEST CASE) TO CONDUCT YEN BUSINESS IN JAPAN. RESTATED FACT THAT EFFECT OF ALICO'S PRESENCE IN MARKET WOULD TAKE TIME TO ASSESS. OFFICIAL COULD NOT INDICATE DATE WHEN OTHER FIRMS MIGHT BE ALLOWED SIMILAR ENTRY. OFFICIAL DID EMPHASIZE MOF PLEASED TO SEE ALICO ATTEMPTING TO OFFER NEW INSURANCE SERVICES TO JAPANESE MARKET RATHER THAN COMPETING HEADLONG WITH SERVICES CURRENTLY OFFERED BY EXISTING JAPANESE INSURANCE COMPANIES. STRONG IMPRESSION WAS GIVEN THAT APPEAL TO NEW AND/ OR DIFFERENT MARKETS WOULD BE FAVORABLY RECEIVED BY INSURANCE DIV IN CONSIDERING FUTURE APPLICATIONS.

4. BESIDES REJECTING MOF CONTENTION THAT JAPANESE INSURANCE INDUSTRY WEAK AND THAT ENTRY U. S. FIRMS WOULD MERELY CARVE UP SAME SIZE PIE INTO SMALLER PIECES, FINATT MADE GENERAL STATEMENT THAT INSURANCE IS AMONG INDUSTRIES COMPLETELY LIBERALIZED FOR FOREIGN INVESTMENT. STRESSED THAT MINFIN LIMITED OFFICIAL USE  
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AICHI PERSONALLY INSTRUMENTAL IN ACHIEVING LIBERALIZATION AND THAT NEGATIVE ATTITUDE ON LICENSING ADDITIONAL U. S. COMPANIES NOT CONSISTENT WITH NEW GOJ POLICY RE FOREIGN INVESTMENT. FINATT ALSO NOTED INCREASED NUMBER OF LICENSES GRANTED U. S. BANKS THIS YEAR SO THAT INSURANCE DIV ATTITUDE INCONSISTENT WITH POLICY OF OTHER BANKING BUREAU DIV. FINATT POINTED OUT AMERICAN BUSINESS COMMUNITY AND USG CONSIDER FOREIGN INVESTMENT LIBERALIZATION AS CHANGE IN GOJ POLICY NOW ALLOWING FOREIGN BUSINESS TO HAVE FAIR AND EQUAL CHANCE TO ENTER JAPANESE MARKET ON SAME TERMS AND UNDER SAME REGULATIONS APPLICABLE TO DOMESTICALLY OWNED FIRMS. THEREFORE OTHER U. S. INSURANCE COMPANIES EXPECTING

MOF TO GRANT ADDITIONAL LICENSES TO SELL LIFE INSURANCE IN JAPAN. OFFICIAL REPEATED THAT JAPANESE COMPANIES NOT RECEIVING LICENSES EITHER AND THEREFORE US FIRMS NOT BEING DISCRIMINATED AGAINST. REITERATED POINTS ( PARA 3 ABOVE) ABOUT DELICATE SUPPLY- DEMAND CONDITIONS PREVAILING IN INDUSTRY.

5. DIV DIR REGRETTED COULD NOT BE MORE RESPONSIVE TO THESE POINTS AT THIS TIME. GOJ VERY MUCH CONCERNED ABOUT FINANCIAL HEALTH OF COMPANIES IN JAPAN ESPECIALLY IN FINANCIAL FIELD. MENTIONED PAST EXPERIENCE OF PHILIPPINE INSURANCE COMPANY WHICH RAN INTO FINANCIAL DIFFICULTIES WHICH DOMESTIC COMPANIES WERE OBLIGED TO COVER. THEREFORE MOF HAD TO MOVE CAUTIOUSLY TO ASSURE ITSELF THAT NEW FIRMS WOULD NOT ENCOUNTER SIMILAR FINANCIAL DIFFICULTIES BECAUSE OF PROBLEM IN OPERATING IN JAPANESE ENVIRONMENT.

COMMENT: AS A RESULT OF MEETING INSURANCE DIV CLEARLY UNDERSTANDS U. S. ATTITUDE REGARDING DOING BUSINESS IN JAPAN. FINATT BELIEVES MOF PROBLEM IS FINDING WAY OF RECONCILING TRADITIONAL VERY CAUTIOUS GOJ APPROACH TO ENSURE HEALTH OF VITAL FINANCIAL SECTOR WITH INTERNATIONAL OBLIGATIONS. MOF DESIRE TO TEST WHETHER FIRST FOREIGN INSURANCE COMPANY CAN ESTABLISH VIABLE FINANCIAL OPERATION IN JAPAN NOT INCONSISTENT WITH PAST PRACTICES IN LICENSING OF FOREIGN BANKS. EMBASSY FEELS THAT AS IN BANKING, MOF MIGHT BE MORE SYMPATHETIC TO GRANTING LICENSE TO TOP U. S. INSURANCE COMPANIES WHICH HAVE DEMONSTRATED FINANCIAL

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STRENGTH. SINCE ONLY FOUR MONTHS THAT ALICO IN OPERATION, EMBASSY DOES NOT BELIEVE IT FRUITFUL TO RAISE MATTER AGAIN UNTIL EARLY NEXT YEAR AT WHICH TIME MOF SHOULD HAVE ASSESSED NEW INSURANCE COMPANY'S ACTIVITIES IN JAPAN.

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